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INDIANA
DEPARTMENT OF
WORKFORCE
DEVELOPMENT



A Report for
**Indiana Department of
Workforce Development**

Employer Cost/Benefit Analysis

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Table of Contents

1. Cost Benefit Analysis Project Background and Objectives.....	2
Background	2
Objectives	2
2. Methodology	3
Project Phases	3
Cost-Benefit Calculations	4
Analysis Assumptions	5
3. Results of Cost/Benefit Analysis	6
4. Other Findings from Survey.....	8
Internet Access	8
Tendency to Perform UI Processes Internally	8
Responses by UI Business Process Area	8
UC1/UC5 Filing	8
Perceived Benefits of UIM	9
Perceived Drawbacks of UIM	9
Preference for On-Line Method vs. Current Method	9
Account Maintenance and Query	9
Perceived Benefits of UIM	10
Perceived Drawbacks of UIM	10
Preference for On-Line Method vs. Current Method	10
Notification of Employers.....	10
Perceived Benefits of UIM	11
Perceived Drawbacks of UIM	11
Preference for On-Line Method vs. Current Method	11
Benefits Eligibility	11
Perceived Benefits of UIM	12
Perceived Drawbacks of UIM	12
Preference for On-Line Method vs. Current Method	12

1. Cost Benefit Analysis Project Background and Objectives

Background

The State of Indiana Department of Workforce Development (DWD) manages the state's unemployment insurance (UI) program. DWD serves approximately 20,000 claimants a week through the initial claims process and 100,000 claimants a week through the continued claims process. In addition, DWD maintains over 185,000 employer accounts through its wage and tax applications. DWD estimates that there are approximately 125,000 active employers.

The current UI system operates on a Unisys mainframe environment and the vendor has notified DWD that the operating system software will no longer be supported effective July 2003. Consequently, DWD has embarked on an initiative to modernize the State's UI processes and system through the use of new technology through the UI Tax and Benefits Modernization (UIM) program.

The UIM vision is to provide the most user-friendly, public-private system for agency customers (i.e., job seekers, workers, and employers) to access the resources they need any time from anywhere. Modernization will have a profound influence on the way DWD does business. The most significant change includes the introduction of Internet-based services, which include customer self-service and real-time service delivery where possible.

Objectives

DWD engaged Gartner, Inc. to conduct a cost-benefit analysis for the employer and service provider component of DWD's UIM Project. Specific project objectives included:

- Identify the types of employers and service providers that have the capacity and interest to use the new UIM (Internet-based) system for processing unemployment insurance (UI) taxes with the State of Indiana.
- Gather estimates of employer and service provider staff time currently spent on UI processes
- Calculate potential savings for employers and service providers by switching to the UIM system.
- Identify perceived benefits and drawbacks of the new system from the employer and service provider perspective.

2. Methodology

The Cost-Benefit Analysis focused on:

- For-profit organizations only.
- For-profit organizations with Internet access or that plan to have Internet access.
- Key business processes, including:
 - Account Maintenance,
 - Benefits Eligibility,
 - Notifications Management, and
 - Filing Wage Summary Reports and Payments (UC1/UC5 process).
- Those companies that do at least one UI process in-house.
 - Those that outsource all processes were excluded from the study, but counted for incidence tracking purposes.

Project Phases

The Cost-Benefit Analysis Project consisted of three major phases:

- Phase 1: Surveying Indiana employers
 - 279 completed interviews obtained.
 - 90 small companies (less than 50 employees)
 - 107 midsize companies (50 to 499 employees)
 - 82 large companies (500 or more employees)
 - 10 service providers (out of possible 10)
 - Respondents spoke on behalf of all of their company's locations across the state.
- Phase 2: Conducting focus groups with employers and service providers
 - The focus groups included 12 employers and two service providers
- Phase 3: Developing cost-benefit analysis
 - Inputs included:
 - Data gathered from Indiana employer survey (Phase 1)
 - Wage information from the 2001 Employment and Wage Survey conducted by DWD

- Transaction time data from 11 other states currently conducting UI processing over the Internet (i.e., in a manner similar to that envisioned for the UIM project)
- Outputs included:
 - Calculation of costs for Indiana employers and service providers to conduct UI transactions using the current manual system
 - Calculation of estimated future costs for Indiana employers and service providers to conduct UI transactions using the UIM system
 - Calculation of difference between current and estimated future costs for conducting UI transactions

Cost-Benefit Calculations

Specifically, cost-benefit calculations were conducted for the current and future environments related to the subject business processes, i.e., Account Maintenance, Benefits Eligibility, Notifications Management, and UC1/UC5 processing. Each calculation included Small, Medium, and Large companies as well as Service Providers. Therefore, a total of 24 calculations were developed as follows:

- 8 for current environment
- 8 for future environment
- 8 for estimated future savings

Figure 1 illustrates a sample cost-benefit analysis calculation. In the calculation, Gartner developed the total cost per quarter for all Indiana companies that perform the subject UI process internally. This calculation was based on how much time companies currently spend on the process as reported in the Phase 1 survey. The quarterly time estimate was the summation of time estimates for several employee types:

- Human Resources supervisor/manager
- Human Resources non-supervisory staff
- Accounting/Finance supervisor/manager
- Accounting/Finance non-supervisory staff
- Other department (i.e., not Human Resources or Accounting/Finance) supervisor/manager
- Other department non-supervisory staff

Gartner also collected quarterly UI transaction time information for the same business processes from 11 other states that currently conduct UI transactions over the Internet. From these comparative transaction times, Gartner projected how much time Indiana employers would likely save when the UIM system becomes operational. Finally, Gartner calculated the difference between the current environment's transaction times

and the estimated future environment's transaction time. The difference yields the estimated future cost per quarter.

It is important to note that the estimated future savings figures will vary widely as calculation variables change.

Figure 1. Sample CBA Calculation

■ **Sample CBA Analysis - Savings Calculation for UC1/UC5 Process for Small Companies**

□ **Estimated Future Savings / Quarter**

$$-\$2,500,410 - \$286,306 = \$2,214,104$$

↑ ↑
Total Current Estimated
Cost / Future Cost /
Quarter Quarter

□ **Estimated Future Savings / Annual**

$$-\$2,214,104 \times 4 = \$8,856,416$$

↑
of Quarters

Analysis Assumptions

Gartner made several assumptions as we built the cost-benefit analysis. These assumptions included:

- The percentage of employers that currently conduct UI processes internally will remain the same when the UIM system is implemented.
- Transaction time data from other states is valid.

3. Results of Cost/Benefit Analysis

Based on Gartner's analysis, estimated future savings for Indiana employers and Service Providers may be up to \$36,470,604 annually when the UIM system is fully implemented.

This analysis assumes a 100% adoption rate by employers and Service Providers for all four transaction types (Account Maintenance, Benefits Eligibility, Notifications, UC1/UC5). It is reasonable and prudent to assume that employers and Service Providers will not universally adopt UIM for all processes, therefore the estimated future savings amount may be substantially less than that projected.

Table 1 illustrates quarterly and annual estimated future savings for all employer sizes and Service Providers depending on adoption rate.

Table 1. Quarterly and Annual Estimated Future Savings by UIM Adoption Rate

Adoption Rate (%)	Total Estimated Savings	
	Quarterly	Annual
100	\$9,117,651	\$36,470,604
75	\$6,838,238	\$27,352,953
67	\$6,108,826	\$24,435,305
50	\$4,558,826	\$18,235,302
33	\$3,008,825	\$12,035,299
25	\$2,279,413	\$9,117,651

Table 2 illustrates total estimated quarterly future savings for each employer size and Service Providers depending on adoption rate.

Table 2. Total Estimated Quarterly Future Savings by Employer Size and Adoption Rate

Adoption Rate %	Total Estimated Quarterly Savings			
	Employer Size			
	Small	Medium	Large	Service Providers
100	\$7,552,922	\$1,368,849	\$141,775	\$54,106
75	\$5,664,691	\$1,026,637	\$106,331	\$40,579
67	\$5,060,458	\$917,129	\$94,989	\$36,251
50	\$3,776,461	\$684,424	\$70,887	\$27,053
33	\$2,492,464	\$451,720	\$46,786	\$17,855
25	\$1,888,230	\$342,212	\$35,444	\$13,526

Table 3 illustrates total estimated annual future savings for each employer size and Service Providers depending on adoption rate.

Table 3. Total Estimated Annual Savings by Employer Size and Adoption Rate

Adoption Rate %	Total Estimated Annual Savings			
	Employer Size			
	Small	Medium	Large	Service Providers
100	\$30,211,687	\$5,475,395	\$567,100	\$216,423
75	\$22,658,765	\$4,106,546	\$425,325	\$162,317
67	\$20,241,830	\$3,668,514	\$379,957	\$145,003
50	\$15,105,844	\$2,737,697	\$283,550	\$108,211
33	\$9,969,857	\$1,806,880	\$187,143	\$71,419
25	\$7,552,922	\$1,368,849	\$141,775	\$54,106

4. Other Findings from Survey

In addition to gathering information about time spent on various UI business processes, Gartner also collected information from Indiana employers about their likelihood to utilize the UIM system. This section includes a synopsis of how companies access the Internet, as well as the tendency of Indiana employers to perform UI processes in-house. In addition, this section presents the perceived benefits, drawbacks, and preference for the UIM system by each of the four UI business processes.

Internet Access

- Large majority of companies have access to Internet.
- All large companies and service providers have Internet access.

Tendency to Perform UI Processes Internally

- Among the overall population of companies (including those that outsource all UI processes):
 - Small companies are most likely to outsource most processes.
 - About one-half of small companies perform processes in-house.
 - Large companies are most likely to perform UC1/UC5 filing and account maintenance/query in-house.
- In general, about two-thirds of large companies perform processes in-house.

Responses by UI Business Process Area

UC1/UC5 Filing

Rated employers are required to report wages and pay contributions on a quarterly basis. Reimbursable employers are required to report wages on a quarterly basis and reimburse DWD monthly for their portion of benefits paid. In Indiana, employers are required to file a Quarterly Contribution Report (UC-1) and a Quarterly Wage Report (UC-5). Tax Administration processes the UC-1 report, while Benefit Administration processes the UC-5 report. The total wage data from the UC-5 should match the summary information on the UC-1.

DWD also receives payments from employers that do not relate directly to the UC1. These payments, known as stand-alones, include reimbursable billing remittances, voluntary payments, and additional payments for such instances as underpaid UI taxes.

Tax Administration deposits all remittances received for the quarterly UC1 reports within one business day of receipt. Employers pay these monies through various media: mail direct to DWD, mail to a bank lock box, and telephone reporting (EFT). (Currently, 3,000 employers submit payments using telephone EFT.)

Perceived Benefits of UIM

- On average, employers of all sizes (not service providers) moderately agree that the new online process would result in various benefits.
 - Means generally in the 4.5 to 5.5 range on a 7-point scale.
 - Benefit most expected to be impacted is “decrease the time for payments to post.”
- Service providers are more negative about the benefits of switching to the online process.

Perceived Drawbacks of UIM

- When asked about potential drawbacks of switching to Internet filing and payment system, one-third of respondents say they can’t think of any drawbacks.
- The most frequently mentioned concern is “Web site being down.”
- The #1 concern of service providers is “wouldn’t save time.”

Preference for On-Line Method vs. Current Method

- In general, companies are slightly in favor of the new online method for UC1/UC5 filing and payments.
 - Average preference score is 4.5 on a 7-point scale.
- Just over one-third (35%) strongly prefer the new online method (6 to 7 on a 7-point scale).
- Nearly one-half (47%) are in the neutral range (3 to 5 on a 7-point scale).

Account Maintenance and Query

Employers frequently query DWD for a variety of reasons. These reasons include claim protests, responses to DWD’s requests for information, or general requests for account information. Currently, employers query via telephone, fax, or US Mail.

Once an employer has an established account, it is sometimes necessary to make changes to the account information. Employer information changes include: changing the employer's address, phone number, and partner/officer profiles; FEIN changes, performing complete and partial acquisitions/dispositions; inactivation, reactivation, and terminations of accounts; corporate dissolutions and clearances; cancellation of accounts set up in error, and seasonal and common paymaster determinations.

Perceived Benefits of UIM

- On average, companies (not service providers) moderately agree that the new Internet process for account maintenance/query would result in various benefits.
 - Means generally in the 4.8 to 5.5 range on a 7-point scale.
 - Most least likely to agree that the new method will save time.
- Service providers are least positive about the new system saving their clients time.

Perceived Drawbacks of UIM

- About one-half of respondents are unable to name a drawback to the new Internet-based system.
- The most commonly mentioned concerns are Web site going down and security.

Preference for On-Line Method vs. Current Method

- In general, companies are moderately in favor of the new online method for account maintenance and query.
 - Average preference score is 4.8 on a 7-point scale.
 - Just over 2 in 5 (41%) strongly prefer the new online method (6 to 7 on a 7-point scale).
- Large companies have the strongest preference for the online method.
 - Average preference score for large companies is 5.9 on a 7-point scale.
- More than two-thirds (69%) of large companies strongly prefer the new online method.

Notification of Employers

DWD communicates with employers on a regular basis for a variety of reasons. Example reasons for notification include the following:

- Employer Rate Notice – Annually DWD notifies employers of their UI Tax Rate for the next calendar year based on the employer experience ratings and the UI Trust Fund contribution balance as of September 30th of each year.
- Adjusting Employer Payments and Reported Wages – Frequently an employer will over- or under-report wages, and the resulting adjustment will require the system to issue credit memos or debit memos depending on the amount paid.
- Reimbursable Billings (SF 1067) – Reimbursable employers do not pay contributions based upon wages paid, but rather reimburse DWD for all benefits paid to their employees. DWD sends employers a Reimbursable Bill for their share of benefits paid to their employees.

Perceived Benefits of UIM

- On average, most moderately agree that the new Internet process for notifications would result in various benefits.
 - Means generally in the 4.3 to 5.4 range on a 7-point scale.
 - Lowest rating given to improving information accuracy.
- Many agree the new process will enable the state to speed up processing of changes to their account.

Perceived Drawbacks of UIM

- About one-third of respondents are unable to name a drawback to the new Internet method for notifications.
- The most commonly mentioned concerns are Web site going down, having to check e-mail, and security.

Preference for On-Line Method vs. Current Method

- In general, companies are slightly in favor of the new online method for notifications.
 - Average preference score is 4.6 on a 7-point scale.
- Just over 1 in 3 (36%) strongly prefer the new online method (6 to 7 on a 7-point scale).
- More than one-half (51%) of large companies strongly prefer the new online method.

Benefits Eligibility

When UI claimants file claim applications, employers can file paperwork to dispute the claim. This process creates “issues,” which are assigned to DWD Claims Deputies for

investigation and adjudication. For example, a claimant may indicate that he or she quit or was discharged and that he or she has potentially deductible income. If the employer disputes the claimant's assertions, then the employer protests the claim. DWD handles the initial investigation into these issues, including corresponding with employers to collect pertinent facts to the case. This correspondence includes sending forms to employers to collect additional information and telephone calls to encourage employers to complete the forms. Once the investigation is complete, the Claims Deputy renders a decision, which is subject to appeal by either the claimant or the employer.

Another aspect of the benefits function is notifying employers about benefit claims against their accounts. One notice type is the Monthly Benefit Charge Statement. At the end of every month, all of the unemployment insurance payments are collected and summarized by liable employers. For each employer, a Benefit Charge Statement (Form 535) is mailed to the employer to show what payment and/or remittance activity has occurred against his account. A second notice type is the Benefit Cross Match Notification. The Benefit Cross Match involves DWD notifying employers when a claimant received benefits in the same quarter that the employer reported wages for the claimant. The cross match function ensures the integrity of the UI benefit system by identifying potential benefit overpayments. The purpose of these cross matches is to discover claimants receiving improper payments.

Perceived Benefits of UIM

- Strongest preference ratings are in area of benefits processes for non-service providers.
 - Means generally in the 5.3 to 5.8 range on a 7-point scale.
- Service providers less enthusiastic in this area; many not sure how new process would result in potential benefits.

Perceived Drawbacks of UIM

- About 2 in 5 respondents are unable to name a drawback to the new Internet method for benefits eligibility.
- The most commonly mentioned concerns are security and access/Web site being down.

Preference for On-Line Method vs. Current Method

- In general, companies are moderately in favor of the new online method for benefits eligibility.
 - Average preference score is 5.0 on a 7-point scale.

- Just under one-half (46%) strongly prefer the new online method (6 to 7 on 7-point scale).
- Nearly two-thirds (65%) of large companies strongly prefer the new online method.